The Business

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Debt burden

The Finance Ministry noted that during fiscal year 2021-22 an additional Rs 1.2 trillion and $3.65 billion is required. Its source would be from sukuk transactions, which to date number 32 domestic and four international, that have netted the government Rs 1.573 trillion and $3.6 billion.This is consistent with the budgeted revenue of 1.2 trillion rupees from sukuk for next fiscal year against 437.4 billion rupees in the outgoing fiscal year - a rise of a massive 174 percent. Revenue from external sources is budgeted at 2747.7 billion rupees with the exchange rate used lower than the present rate as at the time of the budget preparation, the rupee-dollar parity was lower than 154 which has since risen to over 158, implying thereby that the budgeted amount in rupees would be even higher.In addition, till a successful sixth review with the International Monetary Fund (IMF) is completed, budgeted funds from other multilaterals and bilaterals, other than friendly countries, are likely to be held back as their comfort level with the implementation of reforms is linked to Pakistan remaining on the Fund programme.

The Finance Ministry cited three reasons for supporting sukuk transactions over others. First, sukuk are Shariah-compliant borrowing instruments structured to pay returns on investment as rent as opposed to interest, by utilising an asset. However, to state the obvious the rent payable is added onto the country's annual debt servicing repayments.Second, it would enable the government to meet its objective of 19 percent Shariah-compliant instruments in domestic securities by fiscal year 2023, as stipulated in the Medium-Term Debt Management Strategy, which by end December 2020 was only 3.8 percent. Third, sukuk represents a cheaper source of raising revenue compared to say Pakistan Investment Bonds (PIBs) on which reliance was massively raised during 2019-20 and which added considerably onto domestic debt given the then prevailing discount rate of 13.25 percent.

The rent on sukuk has been higher than five percent during the past decade - which is more than double compared to borrowing from multilaterals (including the IMF), friendly countries, including China, Saudi Arabia and the United Arab Emirates, and bilateral assistance. It is important to note that the reliance on PIBs is not budgeted to decline in 2021-22 (projected at Rs 751,139 billion) from 2020-21 revised estimates of Rs 743,465 billion though treasury bills are budgeted to decline to 384.5 billion rupees from the revised estimates of 586.95 billion rupees in 2020-21 though the decline is a small percentage of the projected rise in sukuk.It is also important to note that sukuk envisages annual rent repayments which adds up to the annual service payments that have a cost in terms of inability to allocate sufficient funds for social and physical infrastructure development from our tax rupees.

Navigating choppy waters

AMANAT ALI CHAUDHRY

As the Biden Administration prepares to complete the drawdown of its forces from Afghanistan, the region is in a great flux. The post-withdrawal scenario has forced the regional countries to rush back to the drawing board to form a fresh assessment of the prevailing situation in Afghanistan and think of more innovative ways to deal with the fallout.

There is discernible anxiety generated by the prospect of fresh bouts of violence gripping the war-torn country and spilling over to the neighbouring countries. The exiting Americans may have suffered war fatigue, aided as much by ambiguity in the objectives of the long-drawn-out war as by the history of the Afghan conflicts involving the great powers.

The lesson that no invading power ever came out flaunting victory has been reinforced with the latest pullout of the world's mightiest military. Americans are perplexed by the thought of Afghanistan becoming a breeding ground for terror. Hence, all-out efforts to set up bases for what they term as 'counterterrorism operations'. The biggest of policy somersaults dictated by the weight of circumstances has been India's outreach to the Afghan Taliban, something unimaginable before President Biden's announcement to pull out keeping in view the history of bad blood between them.

Pakistan, being a next-door neighbour with legitimate stakes in Afghanistan, has a job cut out here. On the one hand, it has to prepare itself for the likely surge in TTP-perpetrated violence and the arrival of more refugees into the country. On the other, dealing with the recalibration of ties with the US, a euphemism for increased demands through a proverbial policy of stick and carrot, presents a serious challenge. Faced with such choppy waters that will test Pakistan's ability to address yet another challenge with implications for its security, economy as well as the push for regional connectivity, policy clarity is the foremost requirement. The country's history is replete with examples wherein obscurity marked decision-making at pivotal points, leaving the people guessing as to the 'terms of engagement.' Given this history, clarity as well as the articulation of policy objectives is not precisely a Pakistani thing.

It is in this context that Prime Minister Imran Khan's recent engagement with the foreign media needs to be analysed. Choosing a couple of TV networks as well as newspapers carefully for his interviews as well as an op-ed, the prime minister put across Pakistan's foreign policy position on a host of issues that are critical to the peace, stability and economic development of the country. A careful review of these media engagements shows how PM Khan addressed questions relating to the evolving nature of our relationship with Afghanistan, the US and India in view of the latest situation on these counts in addition to setting the broad parameters of engagement.

Fundamental to the positions taken by him has been Pakistan's desire to privilege the pursuit of geo-economics as the key shaper of the country's foreign policy. Articulated only recently at the Islamabad Security Dialogue, the pivot to geo-economics is becoming more visible in policy pronouncements, though exact details in terms of the short- to medium- and long-term goals have yet to be outlined. On Afghanistan, Pakistan's position represents a welcome departure. It is informed by the lesson of history: choosing sides in a bitterly divided country along ethnic lines has done the country more harm than good. In addition to being held responsible by rival factions for all that has gone wrong, earning their opposition in the process, Pakistan has been scapegoated by the world community, principally the US, for the mess they have failed to clear despite pumping in trillions of dollars and deploying the fiercest of war machines.

Prime Minister Khan's forceful assertion that Pakistan could be "partners with the United States in peace and never in conflict" underscores this country's quest for a new path in the post-withdrawal regional scenario. As he put it eloquently, the cost of becoming part of what was seen as open-ended a conflict as Afghanistan has been disastrous for Pakistan's economy and society with over 70,000 dead and $150 billion lost. The prime minister's unequivocal support for a political arrangement in Afghanistan that is the result of a consensus between the Afghan parties is the right thing to do. The military takeover of Kabul will lead to a protracted civil war with unimaginable consequences not just for Afghanistan but also Pakistan. It is unfortunate that the relationship between Pakistan and the Ghani government has soured at a critical time when both sides needed to work together to chart a shared course forward. In a rare moment of candidness, PM Khan admitted Pakistan's diminishing influence with the Taliban who find themselves at the 'cusp of historic victory' after President Biden declared the winding up of his Afghanistan mission.

Pakistan has already employed its maximum influence, evidenced by the signing of the Doha agreement that created conditions for the US to pull out. Expecting Islamabad to go beyond this is not only unrealistic but also unfair to the country that has been on the receiving side for a long time. In yet another instance of candidness, PM Khan's criticism of the manner in which the game-changing decisions were made opaquely to plunge the country into the conflicts of others is certain to trigger a much-needed debate. For long have the Pakistani people suffered the consequences of wars that were imposed upon them without their knowledge, leave alone consent. A reset in the decision-making process that is guided by the need to protect our interests is a strategic imperative.

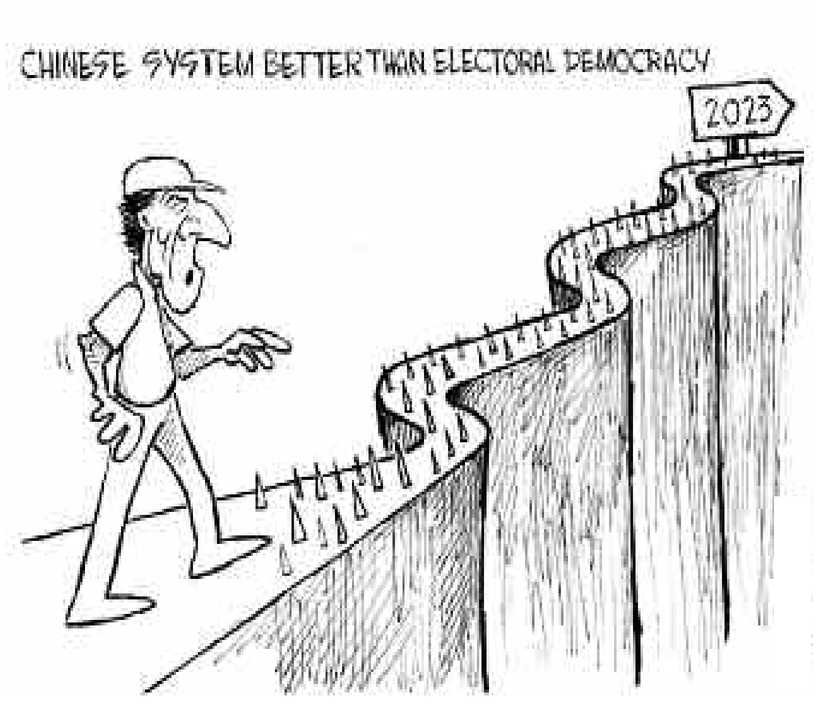
How Pakistan-US relations will play out in the post-withdrawal period has been a vexed question, thirsting for a realistic answer. More so the case when the history of bilateral ties has established the transactional approach being the governing principle of the relationship. Away from the bureaucratic iterations, PM Khan tried to spell out the broad contours of "a civilized relationship" with the US based on 'common interests.' He pitched Pakistan as a country of 'strategic relevance' to America in terms of the huge market, youth bulge and geostrategic location with connectivity as its defining feature.

PM Khan's policy articulation to pursue a relationship with both the US and China, independent of each other, makes perfect sense for a developing country that has enormous challenges on its hands. In what is fast appearing to be a 'cold war', the Sino-US competition is poised to suck Pakistan in an unenviable position the leaders in Islamabad would choose not to be part of.

Relations with both Washington and Beijing hold immense strategic and economic value to Pakistan. At a time when President Biden continues to set up alliances, QUAD being one of them involving archrival India, Pakistan must offer to be a bridge builder in a repeat of its role in 1971 when Islamabad got the US and China to break the stalemate.

The prime minister's robust support for a relationship with China represents a multiparty consensus to take the strategic cooperation with the 'Iron Brother' forward. This iteration also spells out no-go areas in terms of vital interests of the country.

On India, Pakistan under PM Khan made efforts to turn the corner with New Delhi. However, such bold peace overtures were spurned by the right-wing hawks in New Delhi and the annexation of Occupied Kashmir made the regional dynamic more complex, making peace a distant dream. Pakistan has clearly put peace and normalisation options on the table, provided India can create space for the resumption of dialogue by restoring the status quo ante in the held valley. At the time of writing these lines, a meeting was underway in Islamabad in which the military and intelligence leadership was briefing the elected parliamentary leaders about the security challenges Pakistan faces. Only



Dangerous

KHURRAM HUSAIN

It was evident a long time ago that the hybrid experiment came to us with a manufacturing defect, and this would cause it to be locked in permanent firefighting mode. It was evident to most who are used to taking a dispassionate view of political developments in Pakistan, perhaps not to those who were either invested in the experiment, or otherwise bought into its rhetorical packaging.

The defect is a simple one. Executive powers are vested in one office (that of the prime minister) but discharged from multiple offices. Something very similar was the case in the Junejo government in the mid-1980s, and the inability to reconcile this led to a near record accumulation of public debt at the time. The same thing is happening today. The split between who owns executive powers and who exercises them means there is weak ownership over the outcomes, with all sides telling each other to restrain their expenditures first before any discipline can be brought about. As a result, public debt climbs as the government resorts to borrowing to pay for its indiscipline.

Bridging this divide was originally Hafeez Shaikh's job. This is the function he had performed in his last stint as finance minister a decade ago, when the split in executive powers was also present, but the PPP government found a crafty way to move a large chunk of the state's resources permanently into civilian hands via the NFC award. Once this was accomplished, the government was happy to bring in Shaikh and let him run the finance ministry according to the dictates of the IMF, which is what his specialty is.

Much of what is happening today has happened in the past already, in bits and pieces. In some cases even the names are the same (Hafeez Shaikh and Shaukat Tarin have both seen this movie already). Just like Junejo, Imran Khan is now at the moment where he is trying to claw back some space for himself after having ceded far too much ground back in the summer of 2019, when Asad Umar was removed and Shaikh brought in and the country launched onto a vigorous adjustment drive.

A quick look at the budget helps us see how this tug of war is playing itself out. In the medium term outlook (the so-called 'green book') released last year, for example, defence spending was programmed to rise by almost 18pc, or Rs230 billion between FY21 and FY22. This was to be followed by another 11pc increase in FY23, or Rs182b.

But by April of this year, when the new green book was released by Hafeez Shaikh, these figures were brought down significantly. Where last year these projections showed the defence budget at Rs1.53 trillion and Rs1.71tr for the next two fiscal years, by April these were brought down to Rs1.44tr and Rs 1.64tr, down by more than Rs100bn in each year. Once Shaikh was out and Hammad Azhar came in, a new green book was released and these allocations were downgraded further to Rs1.33tr and Rs1.5tr respectively, down by Rs200bn from last year's programmed allocations. And then Azhar was out and Tarin was in, and defence allocations showed a six per cent increase for next year. Compare that to the 18pc that they were seeking in the green book released last year and you'll get a sense of how far the military authorities have had to scale back their expectations. Of course, these figures don't include military pensions, costs of ongoing operations, weapons procurement or salaries of some special divisions like the CPEC force that are funded through supplementary grants. But by themselves they give us a sense of the increases in remuneration that uniformed personnel were expecting, and what they actually got. And what they got is so far below what they were expecting as of last year that the figures alone tell a story of a significant shift taking place.

Meanwhile, remuneration of civil service officers has risen by more than 10pc, minimum wage by 20pc, and allocations for the prime minister's special schemes and projects have absorbed around the same amount as has been trimmed from last year's projected defence allocations. Two years ago, when Hafeez Shaikh was brought in as finance minister, I wrote a column titled 'The figurehead prime minister', in which I argued that Khan seems to have been relegated to a figurehead role now that the purse strings have been taken away from him. For two years he chafed in that role, and it was inevitable that a moment would come when he would try to claw back some of the space that he had to cede back then. It would seem that moment has now arrived. It began with the ouster of Shaikh from the finance ministry, the attempt to replace him with Hammad Azhar, and the eventual compromise on Shaukat Tarin as the candidate all parties in the executive could agree upon. The budget was to be a test of wills to see who will get how much and it seems, from the look of things at least, that the prime minister has carried the day and appropriated for his own priorities the bulk of the incremental resources of the state.

Now he's asserting himself on the foreign policy stage too. You can see this first in parrying the pressure to normalise ties with Israel, then in denying loudly and repeatedly that his government will grant basing rights to the Americans post Afghanistan withdrawal, and more recently in loudly protesting any pressure to downgrade ties with China as a quid pro quo for moving towards a bilateral relationship with the United States. The ground ahead is dangerous. But if the defect in this set-up is to be fixed, Khan has no choice but to walk this road. Let's see where it leads him.

COVID-19 impact on labour market and employment

BY MUHAMMAD ZAHID RIFAT

The human resources of a country play an important role not only in the economic development but also for the social well-being of the country.

Moreover, large population size and lack of proper management of human resources can also lead to some sort of social disorder and distress and cause curtailing of the economic performance. Because of ever increasing population growth, Pakistan is facing difficulty in optimal social spending ie healthcare, education, housing and unemployment etc.

In this scenario, the advent and spread of COVID-19 has further aggravated the situation. Fully cognizant of this, the federal government has and continues to take several steps and appropriate measures for overhauling of the ailing structure of the national economy and implementing remedial measures particularly for human capital development.

During lingering COVID-19 pandemic, currently in its third wave, protection and creation of jobs is the second biggest challenge after the health crisis in Pakistan. The pandemic has quite obviously aversely impacted employment and labour productivity by impeding growth in various economic sectors. State Bank of Pakistan had taken different measures to cope with the situation and effectively counter the effects of COVID-19 like support to firms in paying wages to their employees amid the lockdown to prevent layoffs under the Rozgar Scheme. Furthermore, the revival of construction industry through appropriate timely measures of the federal government during pandemic is also one of the major initiatives of the government for employment generation in the country. Undoubtedly, the COVID-19 pandemic has had devastating effect not only on human life but also posed an unprecedented challenge to the public health and economic growth.

Pakistan has also borne the economic brunt of COVID-19 pandemic that had resulted in negative growth of -0.47 per cent in FY 2020, job losses, falling income and deteriorating social indicators. According to "Special Survey for Evaluating Socio-Economic Impact of COVID-19 on Well-being of people", conducted by Pakistan Bureau of Statistics, almost half of the working population was affected due to closure of businesses and lockdown. As per Pakistan Bureau of Statistics, prior to COVID-19, the country's working population was 35 per cent (55.75 million). However, in pandemic closure of economic activities due to imposition of lockdown for health safety, this number had declined to 35.04 million which indicated that people had either lost their jobs or were not able to work.

In July 2020, the federal government announced comprehensive package for the construction industry in the country. This opening of sectors in which daily wagers were working along with fiscal stimulus and monetary measures commendably resulted in the recovery of the national economy.

Quite appreciably, it was reported that 33 per cent (52.56 million) working population in the country were back more or less on their original or appropriately alternative jobs and resumed working. The sectoral analysis has revealed that construction and manufacturing sectors were the most vulnerable sectors during this pandemic. Wholesale and retail, transport and communication sectors were also affected on account of COVID-19.

According to the incidence of population faced job lost or decrease in income, construction sector was most hit to the extent of 80 per cent, followed by manufacturing sector 72 per cent, transport and storage 67 per cent, wholesale and retail trade 63 per cent mining and quarrying 38 per cent, as per the special survey conducted by the Pakistan Bureau of Statistics as mentioned above. These figures show that COVID-19 pandemic had hampered economic activities in construction and manufacturing sectors due to decline in consumer, business confidence and production and supply chain disruptions.

It was estimated that as much as 80 per cent workers had lost their jobs, either could not find work or received lower income in construction sector. People were reluctant to invest in this sector owing to apprehensions caused by the COVID-19 prevalent circumstances.

Further, manufacturing sector also observed disruption in production activities because of contraction in demand resulting in 72 per cent workers had either lost their jobs, could not find work or faced decrease in income. Additionally, the incumbent government had also imposed strict lockdown, for effectively check controlling and the adverse pandemic impacts, which had quite obviously hampered wholesale and retail business and transport & storage business leaving 63 per cent and 67 people to become jobless or have lower income respectively. Prudent strategies and timely interventions by the federal government have put the national economy on the trajectory of recovery saving the nation from very severe impact of COVID-19 pandemic.

Furthermore, construction sector package and industrial relief packages etc are other key initiatives of the incumbent government resulting in recovery of all segments of the national economy from the shock. Official quarters concerned, when contacted, have observed that out of 20.6 million people in the industrial sector who had lost their jobs or could not find work during April-July 2020, as many as 18.8 million had started working again during August-November 2020 depicting a V-shaped recovery.

Briefly, the initiatives taken by the federal government during 2020-21 to reduce the adverse impact of COVID-19 and generate employment are Construction Package, Textile Industry Package, Bundal Island project, Export Processing Zones, Ravi River Urban Development Programme and Information Technology (IT) Parks Packages Large number of employment opportunities are most likely to be generated as a result of these initiatives if all goes well and encouraging initial results have already started showing up here, there and everywhere with the continued blessings of Almighty Allah.